



**The Budget and Spending Task Force**  
**Rep. Rob Woodall, Chairman**

Date	Event
<b>February 4</b>	The President is legally required to submit a budget to Congress. President Obama has already announced that he will not meet this deadline. This will be the fourth time in five years that he failed to meet the deadline.
<b>February 15</b>	The Treasury Department has stated that on this date it will have exhausted its “extraordinary measures” and would be forced to begin paying for obligations on a cash basis (yearly revenue is approximately \$2.5 trillion).
<b>February 15-March 1</b>	A more likely range for when the Treasury Department would exhaust its “extraordinary measures” and the United States would hit the debt ceiling (according to the Bipartisan Policy Center).
<b>March 1</b>	Sequestration begins and discretionary spending levels for FY13 would be cut to approximately \$974 billion.
<b>March 27</b>	Expiration of the temporary continuing resolution (CR) that provides authorization for government spending at the rate of \$1.047 trillion (for FY13).
<b>April 1</b>	The Senate Budget Committee is required by law to report a budget resolution. The Democrat led Senate has not passed a budget since April 29, 2009 – more than 1,300 days.
<b>April 15</b>	Congress is legally required to complete action on budget resolution.
<b>July 15</b>	The President is required to submit a mid-session review of his budget to Congress.
<b>October 1</b>	Fiscal year (FY14) begins.

***Outcome of the Fiscal Cliff***

H.R. 8, the American Taxpayer Relief Act, ended scheduled tax increases set to occur for all Americans, by raising rates only on earners above \$450,000. Many RSC members voted against this measure for reasons such as the detriment marginal tax rates can have on economic growth, the bill excluded spending cuts, special interest tax extenders remain, and according to a Congressional Budget Office (CBO) scoring, H.R. 8 *increased* the deficit over 10 years.

As part of its annual *baseline*, or measure of revenue and spending based on existing law, CBO estimated that H.R. 8 would result in the Treasury taking in \$3.6 trillion less over 10 years than if tax rates had increased for all taxpayers. In its August *Budget and Economic Outlook*, CBO had assumed the government would run a deficit of \$641 billion in 2013. CBO will update its baseline in February, which is likely to forecast a higher deficit for 2013.

On the spending side, significant spending cuts known as *sequestration*, were put off until the end of February. The Defense Department is implementing budget cuts of \$487 billion over 10 years, with sequestration adding another \$500 billion in cuts. Last Congress, the House Budget Committee proposed, and the House passed, H.R. 5652, the Sequester Replacement Reconciliation Act of 2012 as a way of substituting cuts to our military with reductions in other government spending.

### ***Government Funding Measures – Continuing Resolutions***

With the Senate declining to pass a budget, Congress has had to work with *continuing resolutions*, temporary funding measures that keep the government in operation. The government is currently funded through March 2013, and will require another measure to continue operations through the remainder of the fiscal year, which will end September 30, 2013.

This past September, the House passed H.J.Res.117, to keep the government funded through March 27, 2013. The continuing resolution funded the government on an annualized basis at \$1.047 trillion, commensurate with levels agreed to in August 2011 as part of the Budget Control Act (BCA). By comparison, the BCA set discretionary spending in FY2012 at \$1.043 trillion, and \$1.066 trillion in FY2014. Prior to the BCA, CBO had estimated FY2013 outlays at \$1.217 trillion as part of its March 2011 adjusted baseline. After the BCA, CBO estimated outlays to be \$1.170 trillion, a real cut of \$47 billion.

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**BSTF Contact:** Nick Myers, [nick.myers@mail.house.gov](mailto:nick.myers@mail.house.gov), 5-4272 (Rep. Woodall)

Will Dunham, [will.dunham@mail.house.gov](mailto:will.dunham@mail.house.gov), 6-0718 (RSC)

**THE WALL STREET JOURNAL.**  
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[OPINION](#)

January 21, 2013, 7:17 p.m. ET

**Amid the Debt-Ceiling Debate, Overblown Fears of Default**

## ***Government operating within its means would not lead to economic Armageddon.***

By [EMIL W. HENRY JR.](#)

House Republicans last week unveiled a plan to raise the debt ceiling for three months, giving them time to negotiate spending cuts and entitlement reform without a Sword of Damocles—the threat of hitting the federal government's statutory borrowing limit—hanging over the process.

The GOP strategy may work, but it may also lead to a series of unsatisfying debt-ceiling increases as talks drag on—their dreams of a budget breakthrough dying from a thousand non-cuts. This new strategy was likely influenced by Republican lawmakers intimidated by cries from the president that they would let the U.S. government fall into default with "catastrophic" consequences for "the entire global economy."

Republicans should recognize that the decibel level from the opposition is, in part, a reflection of the danger that debt limitation poses to the aspirations of those who perennially deny the arithmetic certainty of the country's insolvency in the absence of entitlement and spending reform. Though the consequences of such action have never been tested, there is reason to believe that the fear-mongering is overstated.

Warnings about not raising the debt ceiling are usually followed quickly by alarms of default and the risk that Social Security checks and payments to our most needy would not be delivered. Another caution often heard is that capital markets would be roiled, given the complexity of funds and financial contracts tied to Treasury securities.

These concerns can be largely addressed by legislation or pre-emptive action by the private sector.

For example, the first line of defense against default of interest or principal on our debt is legislation, such as that proposed in the Full Faith and Credit Act of 2011 by Sen. Pat Toomey (R., Pa.), which prioritizes payments of interest and principal before other government expenditures. We can afford this commitment because interest payments for 2013 are projected by the Congressional Budget Office to be 7% of tax receipts, meaning 93% of the government's revenues can be deployed elsewhere.

Even with this legislation, however, there is further risk of principal default. Namely, once the ceiling is hit, the government will still need to issue new Treasury debt to retire maturing debt—and in large quantities. In 2013, the Treasury will need to issue about \$3 trillion to refund maturing securities. A failed auction or the mass refusal of investors to roll over T-bills (a "buyer's strike") might trigger a default.

Yet if the Treasury found itself in the highly unlikely position where no amount of interest-rate increase could create a clearing price for a successful auction, Congress always has the ability to raise the ceiling at any time and for any amount. And, as a last resort, if Congress were recalcitrant in such a difficult circumstance, the Federal Reserve would be well within its mandate to intervene to provide liquidity by purchasing securities. The Fed has purchased some \$2 trillion of Treasury securities since the financial crisis began in 2007, and it owns more than a trillion dollars in non-Treasury securities that could be partially monetized.

Treasury Secretary [Timothy Geithner](#) has warned of another form of technical default saying legislation would "not protect from nonpayment the other obligations of the United States, such as military and civilian salaries, tax refunds, contractual payments to individuals and businesses for services and goods, and many others" whose nonpayment would compromise the government's credit-worthiness.

To this I suggest an ancient remedy: Figure it out, just as the private sector does when times are difficult. Rationalize bloated agencies. Eliminate duplicative programs. Reduce salaries. Initiate a hiring freeze. Negotiate with vendors to make payments over time. And if these are not workable solutions as Mr. Geithner implies, then he or his successor should come before Congress and explain why they are not. Republicans will listen. They too have no interest in an economic Armageddon.

Regarding Social Security payments, there are typically timing differences between the receipt of tax revenues and the payment of entitlement expenses implying the potential for delayed checks. Legislation could allow for temporary increases in the debt ceiling to cover these timing differences and prevent delay.

Some Wall Street firms warn of entangling complexities in the market for Treasury securities. They worry that the heightened risk of default will cause funds to divest themselves of Treasuries in such scale as to create mass dislocation. They also worry that the \$4 trillion "repo" market, where Treasuries are the preferred collateral, would see rates rise to the extent Treasuries are seen as more risky. Banks might then redeploy capital away from lending to support the additional margin required by the market, thus hurting the economy.

These may be reasonable concerns but House Republicans should recognize them as worries of an establishment with, first and foremost, a bottom line to protect. In the summer of 2011, amid great uncertainty over the debt ceiling and ultimately a downgrade by Standard & Poor's to AA+ from AAA, there was similar fear and divestitures of Treasuries, but markets functioned nonetheless. Interest rates even declined as the market continued to adorn U.S. Treasuries with the halo of being safe relative to other sovereign debt.

Some suggest that the rating agencies would view a debt-ceiling standoff—whether in the coming weeks, if the new GOP plan fails, or down the road when a debt-ceiling fight is almost certain to be revived—as evidence of worrisome dysfunction. To them I suggest that such an event would be the opposite: an example of highly functioning divided government, as intended in the Constitution, providing a check on those who lack the will to manage a problem today before it becomes a nightmare tomorrow.

The most legitimate concern of a debt-ceiling impasse is that large spending cuts at a time of economic weakness will spark a recession. Such cuts could amount to \$600 billion to \$700 billion, or about 4% of projected 2013 gross domestic product. The question for policy makers is whether a near-term decline in output is justified by the elimination of our insolvency risk and putting our economy on a renewed path of higher growth for decades to come.

*Mr. Henry, the CEO of Henry, Tiger, LLC, was an assistant secretary of the Treasury from 2005 to 2007.*